

Prince Edward Island Business Development Inc.

Annual Report 2005-2006

Prince Edward Island
Business Development
Inc.

Technology PEI

Atlantic Technology
Centre

PEI Food Technology
Centre



PRINCE EDWARD ISLAND
FOOD TECHNOLOGY CENTRE
CENTRE DE TECHNOLOGIE ALIMENTAIRE
DE L'ÎLE-DU-PRINCE-ÉDOUARD



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Message from the CEO

Honourable Richard Brown
Minister of Development and Technology
PO Box 2000
Charlottetown, PE
C1A 7N8

Dear Minister,

I respectfully submit PEI Business Development Inc. Annual Report for the fiscal year ending March 31, 2006.

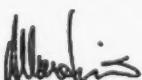
Last year's amalgamation of Prince Edward Island Business Development Inc. and Technology PEI has proven to be a success. As a result, Prince Edward Island Business Development now offers business programs and services to our clients across the province.

PEI Business Development Inc., Technology PEI, the Food Technology Centre (FTC) and the Atlantic Technology Centre (ATC) all continued to make significant progress over the past 12 months. As a result of the work of the dedicated professionals employed with the agencies, new businesses were established, many existing companies expanded, lucrative contracts were signed in export markets and hundreds of new jobs were created. In addition, several new training opportunities were offered across the province.

Our objective is to enhance the overall business climate across the province and to get the message out that Prince Edward Island is open for business. And this province has much to offer in this regard; we continue to offer low corporate taxes, a skilled and eager workforce and extremely competitive operating costs. As a result, we continue to see tremendous growth in developing sectors such as Aerospace, Manufacturing, BioScience, Food Processing, and Information Technology.

I would like to thank the employees of PEI Business Development for their hard work assisting our clients in identifying opportunities and maximizing Prince Edward Island's economic potential.

Sincerely,



Allan Smith, CEO
Prince Edward Island Business Development Inc.
& Technology PEI

Board of Directors

Prince Edward Island Business Development Inc. and Technology PEI

PEI Business Development Inc.

- Hon. Michael F. Currie, Vice-Chair
- Tom Deblois, Director
- Mike O'Brien, Deputy Minister & Chair
- Denis Gallant, Director
- Paul Jelley, Director
- James Johnston, Director
- Allan Smith, Secretary/Treasurer

Atlantic Technology Centre

- Mike O'Brien, Deputy Minister & Chair
- Reagh Hicken, Director
- Allan Smith, Director

PEI Science & Technology

- Mike O'Brien, Deputy Minister & Chair
- Allen Stoolmiller, Director
- Allan Smith, Secretary/Treasurer
- Paul Bernard, Director
- Alan Baker, Director
- Shauna Sullivan Curley, Director
- Dr. Murray McLaughlin, Director
- David Riley, Director
- Reagh Hicken, Director

Client Services Division

Prince Edward Island Business Development Inc. and Technology PEI

Client Services

The Client Services Division is responsible for the coordination and delivery of information and assistance to new and existing businesses in Prince Edward Island. Specifically, the group provides counseling, financial assistance, business guidance, education and management development to assist businesses with start-up, expansion and diversification to support the long-term viability of Prince Edward Island companies.

The division actively supports small business and encourages entrepreneurship through cost-shared financial assistance for capital acquisitions, market development, technology, training and innovation. Presently the division delivers 15 different incentive programs targeted at a variety of industry sectors. More than 600 projects received assistance under a variety of support programs during this fiscal year.

Small Business Counselling and Mentoring

Small business counselling and mentoring – our most significant service – is available in seven (7) locations across the Island at Access PEI Centres, the Canada/PEI Business Service Centre and at PEI Business Development Inc.

Approximately 4,000 client meetings were held last year. Specific examples of mentoring initiatives in the past year including the following:

- Working with UPEI students under a national program - *Advancing Canadian Entrepreneurship*
- A Young Entrepreneurs Forum that allows future business leaders the opportunity to network with some of PEI's leading business people
- Providing leadership and staff to Junior Achievement of Prince Edward Island
- *Launchpad* - mentoring and coaching program for Innovative Technology related business start-ups

Sector Development

Client Services focuses on emerging industries and has dedicated staff with advanced training in the following sectors: food production, bioscience, craft and giftware, film and television, manufacturing and information and communications technology.

The Craft Sector was highlighted this year to demonstrate our commitment to sector development. Key initiatives including the following:

- An *Annual Buyers Market Wholesale Trade Show*, creating an opportunity for Island producers to market directly to local and regional buyers
- An *Annual Studio Tour* showcasing Island artisans
- A *Craft Education Award Program* to provide financial assistance to individuals wishing to pursue a career in the industry
- A *Craft, Art and Giftware Directory* produced bi-annually, listing all Island artisans and artists
- A *Winter Production Financing Program* providing funding to accumulate inventory over the winter months when tourism is slower.

Self Employment Benefit Program

This program, delivered under a contract with Human Resources Skills Development Canada, assists individuals that are Employment Insurance eligible to explore self employment as a career option.

In the 2005-2006 fiscal year, 454 client meetings were held. More than 200 participants received assistance in developing 80 projects for evaluation. In the previous fiscal year, 65 participants lead to the creation of 35 new business start-ups. As part of the program, 27 workshops were delivered to assist clients in developing a business plan.



Brian Keefe, Director

Small Business Management Skills

Small businesses contribute significantly to the provincial economy. Statistics indicate that a large majority of small businesses fail within the first 10 years of operation.

Entrepreneurs require ongoing development of business management skills and tools that enable them to enhance their capabilities to pursue trade and export opportunities and improve their competitiveness both locally and globally.

In response, Prince Edward Island Business Development Inc. supports many initiatives to help with small business training:

- Through ProfitLearn PEI, we have assisted in the delivery of 67 small business training courses offered across the Island, attracting more than 800 small business participants.
- We have assisted in the delivery of three comprehensive marketing and human resource training programs — *Eureka Ranch's Jump Start Your Business*, *Innovation Acceleration* and *Planning for Growth*. These programs included both classroom and on-site training over an extended period of 6 months or more.
- The Productivity programs "Quality Improvement" and "Performance Plus" have assisted more than 26 companies in improving productivity, profitability, and efficiency.
- Staff have received comprehensive training in *Lean Manufacturing*. Educational sessions have been developed and delivered to clients. The establishment of a networking group in the manufacturing sector is also underway.
- Craft training and educational seminars for individuals and groups were completed.
- Access to Capital, *Investment Opportunity Assessment*, and other financial management workshops were developed and sponsored by PEI Business Development Inc.

Progressive Tax Rebate Programs

The Progressive Tax Rebate Program, introduced last year, provides a suite of measures to counter specific structural impediments in the economy.

Innovation and Development Tax Credit

Designed to promote the development of intellectual property and the production of innovative products and services for export to the world.

Results: \$4,695,902 Invested In 21 projects

Enriched Investment Tax Credit

To assist firms to increase productivity and competitiveness.

Results: \$4,264,037 Invested In 10 projects

Specialized Labour Tax Credit

To help attract new expertise to accelerate the Island's participation in emerging, global opportunities.

Results: \$1,049,249 Invested In 22 projects

Share Purchase Tax Credit

To encourage Islanders to invest in Island companies.

Results: \$3,500 Invested In one project

To date, the results of these initiatives have been very positive—a total investment of \$85.7 million with a planned job creation of 657 upon project completion.

Corporate Services Division

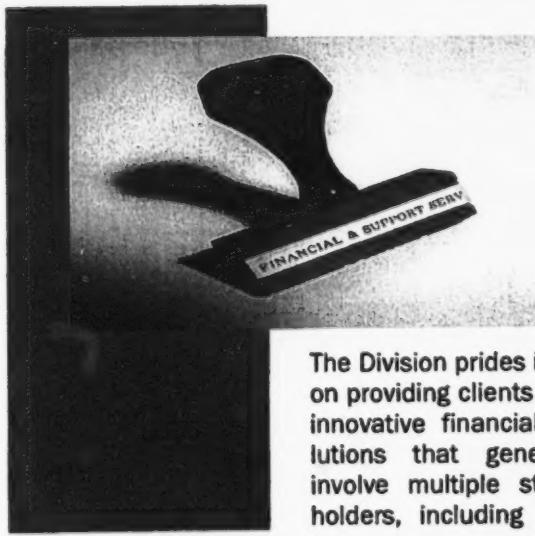
Prince Edward Island Business Development Inc. and Technology PEI

Financial Services

The Division provides financing, investments and loan guarantees in support of Prince Edward Island businesses to create, maintain or expand business opportunities that will result in wealth and job creation for the province.

Our lending and investment activities are focused on manufacturers, processors and service providers in the corporation's priority development sectors. Emphasis is placed on businesses involved in exporting to domestic and international markets, import replacement and value-added processing.

As a developmental lender, the Division seeks innovative and generally higher risk projects than conventional lenders. By utilizing a non-formula approach to lending, the Division strives to maximize development opportunities for the province, while balancing financial risk of the project with the projected economic return.



The Division prides itself on providing clients with innovative financial solutions that generally involve multiple stakeholders, including con-

ventional lenders and other business development agencies. This result is achieved by using a variety of financial products, such as demand loans, revolving lines of credit, term loans, equity investments, and loan guarantees to meet the specific financing needs of clients.

Also, as part of its non-conventional approach to commercial lending, the Division can act as a financial intermediary utilizing staff expertise in banking and accounting to assist clients to assemble financial packages for their projects with other lenders and government agencies.

Immigration Services

The Prince Edward Island Provincial Nominee Program is a partnership agreement between the Province of Prince Edward Island and the Government of Canada, represented by Citizenship and Immigration Canada.

The program is administered for the Provincial Government by Island Investment Development Inc., a Provincial crown corporation.

The Provincial Nominee Program expedites the immigration to Canada of individuals and their families who meet Provincial criteria for initiatives to support.

- increased business and economic development;
- the supply of skilled workers;
- increased population;
- achievement of provincial demographic, social and cultural objectives.

Corporate Services Division

Prince Edward Island Business Development Inc. and Technology PEI

The Division provided up to \$900,000 in inventory financing to allow a manufacturer to build an adequate supply inventory to service its network of new and existing dealers ahead of the peak sales season. This enabled the manufacturer to continue to employ production staff during traditionally slow winter months and achieve production efficiencies through longer production runs and bulk purchase of raw materials.

The Division also provided working capital financing to a manufacturing company to finance its inventory and work-in-progress. This on-going financing enables the company to bid on larger projects within Atlantic Canada and the Eastern United States and maintain its skilled labor force of 15-20 people.

Food Trust of Prince Edward Island Ltd. was established in 2001 to re-connect food producers with consumers, to encourage sustainable food production practices and also to provide increased returns to producers. More than \$2 million in financing was provided to assist Food Trust in purchasing potato merchandising display units to promote the sale of high-quality Island potatoes and other related products in Loeb, A&P and Metro stores in Ontario and Quebec. The products have proven successful with display units placed in more than 250 stores and retailers seeking to expand the program further.

Master Packaging Inc. manufactures corrugated boxes and folding cartons at its plant in Borden-Carleton, Prince Edward Island. Its folding carton division has grown rapidly, with demand exceeding production capacity. Ten million dollars in financing was provided to assist with a plant expansion and the purchase of state of the art production equipment. The expansion will enable the company to fully supply existing trade customers and diversify into the custom folding carton business in export markets. Furthermore, the expansion is projected to create an additional 58 positions.



Neil Stewart, Director

Prince Edward Island Business Development Inc. and Technology PEI

Highlights

- Provides financing, investments and loan guarantees in support of Prince Edward Island businesses. During the past year the loan portfolio has grown by \$9.1 million or 23 percent, bringing the total portfolio to 90 accounts totaling nearly \$60 million.
- Manages the Prince Edward Island Provincial Nominee Program, which assisted 30 skilled workers, three entrepreneurs and 215 immigrant investors to gain expedited entry to Canada and the province. Direct investment in Island businesses totaled \$43 million from these activities.
- Manages Island Investment Development Inc., with a loan portfolio of 28 accounts totaling \$30 million, which invests federal immigrant funds, through low interest loans to Island businesses where significant economic benefit to the province exists.
- Manages the Entrepreneur Loan Program, meeting the needs of the micro-loan market by guaranteeing loans to finance small business start-ups and expansion opportunities. This program consists of 71 accounts with \$1.1 million under management.
- Manages the Winter Production Financing Program. This program provides loans to new and expanding craft and giftware manufacturers to support the production of product inventory during the winter months to meet peak sales periods which typically occur later in the year. The portfolio consists of 26 clients totaling \$173,000.
- The Division also facilitates venues to promote alternative financing opportunities for Island businesses.

Examples include

- "Do You Need Money to Grow Your Business" educational seminar held in Charlottetown in July 2005 and in Summerside in November 2005;
- Reception with FCC Ventures in November 2005 to introduce Island businesses to the venture capital division of Farm Credit Canada; and,
- The establishment of the First Angel Network in Prince Edward Island.

Community and Primary Industries Division

Prince Edward Island Business Development Inc. and Technology PEI

The Labour Force and Youth Development Division coordinates and delivers programs and services to assist individuals, businesses, and sector/professional associations to explore/promote careers in Prince Edward Island.

This Division's main responsibility is to engage youth in the pursuit of skills development particularly entrepreneurial, leading to the next generation of PEI's skilled workforce and business leaders. Our clients include youth under the age of 30, small businesses, community groups and those associated with education and training in workforce development.



Our partners include the University of Prince Edward Island, Holland College, private trainers, sector associations, professional associations, K-12 sector and various labour-related agencies at the federal and provincial level.

Additional services provided to clients include consultation and counseling, access to skill development, program creation/delivery and in some cases, mentorship. The Division provides a large majority of our counselling services in the communities requested by the client.

Divisional priorities such as new business creation, economic development and overall wealth creation are aligned with programs supported by the Division. Assistance provided is not only one of a financial form, but also one that plays an active role in community boards and committees, program delivery and leadership on required infrastructure.

The Division has an active seat on the Junior Achievement Provincial Board, Skills Canada, Regional IT Centres Boards, Atlantic and National CAP Associations, various sector councils and is heavily engaged in working groups such as the Minister's Committee on Labour Force Issues or the Premiers Working Committee on Literacy.

The Division maintains a strong relationship with Industry Canada through the co-delivery of the Community Access Program (CAP), which includes 41 sites that welcome more than 140,000 visitors annually. The federal CAP program is currently under review with confirmation of direction sometime in early 2007.

Prince Edward Island is viewed as a role model, focusing on community development, job creation, and workplace experience for youth. In addition, the Division works with Industry Canada on major infrastructure initiatives such as Broadband for Rural And Northern Development (BRAND). This program is also under review for a potential third round.

Through a Human Resource and Skill Development Canada's (HRSDC) youth initiative, the Division co-delivered a program to give youth between the ages of 15 and 30 valuable work experience in the IT sector.



Grant Sweet, Director

Prince Edward Island Business Development Inc. and Technology PEI

Forty-two positions were created in 2005-2006 to make a total of over 540 since the inception of this partnership.

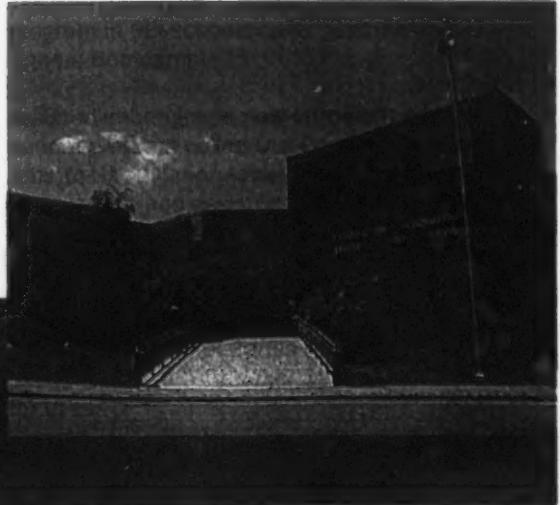
Regional Technology Centres, established in Cardigan, Kensington and O'Leary, are regional centres that provide local businesses and the general public access to the latest information and communications technologies.

In addition to rental space, smart boardrooms and broadband connectivity, the centres offer training in full-size computer labs which are heavily utilized by sector groups in agriculture and tourism.

- 65 positions created and maintained in PEI communities to support the Community Access Program (CAP)
- 41 PEI CAP Sites functional with over 140,000 annual visits

Highlights

- 275 participants in the Seniors Net Program
- Initiated a new, very popular video game design program in PEI schools called GameForce: Designers Bootcamp
- Assisted in bringing a new introductory entrepreneurial program called Our Community Needs Jobs Tools to Junior Achievement for students at an early age and assisted in the delivery to 26 classes and 496 students
- Initiated three new speaker series a Bio-Tech Youth Series (High School), an IT Youth Speaker Series (High School), and an IT Speaker Series for UPEI



Trade, Marketing and Communications Division

Prince Edward Island Business Development Inc. and Technology PEI

The mandate of the trade group is to increase the revenues generated from export sales and to assist Prince Edward Island companies in becoming export ready.

The Division provides training, support for market-entry activities and market-specific information. The Division also represents the Province on the management committees for regional agreements such as the International Business Development Agreement and the Atlantic Canada Food Export Partnership.

Trade Missions

The Trade group leads a number of trade missions each year. These missions provide a cost-effective method for companies to gather information on logistics and competition. They also provide participants with face-to-face meetings with pre-screened prospective partners in the target geographic areas. There are three different types of missions:

Team Canada Atlantic Missions

Team Canada Atlantic is a partnership that includes the Atlantic Canada Opportunities Agency, Agriculture and Agri-Food Canada, Industry Canada, Foreign Affairs and International Trade Canada and the four Atlantic provinces. Team Canada Atlantic organizes trade missions to the United States. Since 1999, more than 300 companies have participated. Last year 11 companies visited Chicago resulting in \$3.25 million in increased revenues.

Trade Team PEI Missions

Trade Team PEI Missions involve a network of provincial and federal departments and agencies with responsibilities for trade development in Prince Edward Island only. In this fiscal year, delegates have traveled to Southeast Asia, New England, Southeast USA, Barbados and South America resulting in anticipated increased revenues of \$10.36 million.

Prince Edward Island Business Development Inc. Missions

Corporate missions include Prince Edward Island representatives and occasionally Provincial Government representatives. These missions are typically scheduled for domestic markets such as Toronto, Ontario, and Calgary, Alberta. Last year, two missions resulted in increased revenues of \$2.2 million.

Marketing

The Marketing & Communications group provides marketing support to all divisions within Prince Edward Island Business Development Inc., Technology PEI, Atlantic Technology Centre, and Food Technology Centre. Additionally, this Division provides marketing advice and funding to Prince Edward Island businesses, develops and executes entrepreneurial training programs and organizes festivals, trade shows and other local events.



Steve Murray, Director

Prince Edward Island Business Development Inc. and Technology PEI

Small Business Week

A variety of activities were planned between October 17 and 21, 2005, including several "Lunch and Learn" seminars on topics such as: "Boost Your Business With Market Research," "Dealing With Your Banker or Other Lenders" and "Connecting With Your Customer." These events were located throughout the province and attended by approximately 150 entrepreneurs. The Women in Business also offered a symposium that was widely attended.

International Shellfish Festival

Local, regional, national and international chefs are invited to compete and produce the best dishes using Prince Edward Island seafood and compete for a \$10,000 cash prize. This year, 17 chefs competed. This event provides a good venue for seafood processors to meet with international buyers.

Boston International Seafood Festival

Prince Edward Island was the lead on this international festival which is attended by the four Atlantic Provinces. This year, several PEI based processors exhibited and attended.

Canadian Food and Beverage Show

Prince Edward Island Business Development Inc. coordinated the Provincial booth presence for the Canadian Food and Beverage Show. Five Island processors exhibited and Chef Allan Williams from Holland College attended to prepare food samples.



Marketing Counselling and Support

This Division has provided marketing counseling support to Island small businesses in the areas of market planning, promotional tool development, sales distribution contacts and new product development.

The Division worked with companies on projects involving individualized training on export security, competitive intelligence and market entry. This counselling support has lead to increased sales through new market penetration.

Science and Innovation Division

Prince Edward Island Business Development Inc. and Technology PEI

In 2005-2006, this Division changed its name from Research Secretariat to the Science and Innovation Division. The mandate of the Division is to increase research capacity and transform innovative ideas into commercially viable products and services.

The Division shares information and knowledge of research and development (R&D) activities. It works cooperatively with local agencies and other government departments, both provincial and federal, to provide financial support, guidance and other related services to research institutions, commercial entities and private sector businesses across all sectors.

Research and Development

The Government of Prince Edward Island is committed to supporting research and development in the province. Innovation thrives when supported by sound R&D which in turn leads to a stronger economy and job creation; thus, R&D is an important component in cultivating Prince Edward Island as a leading-edge province.

The R&D Initiative Fund was introduced in 2005-2006 to help position the province as the cornerstone of research development in Canada.

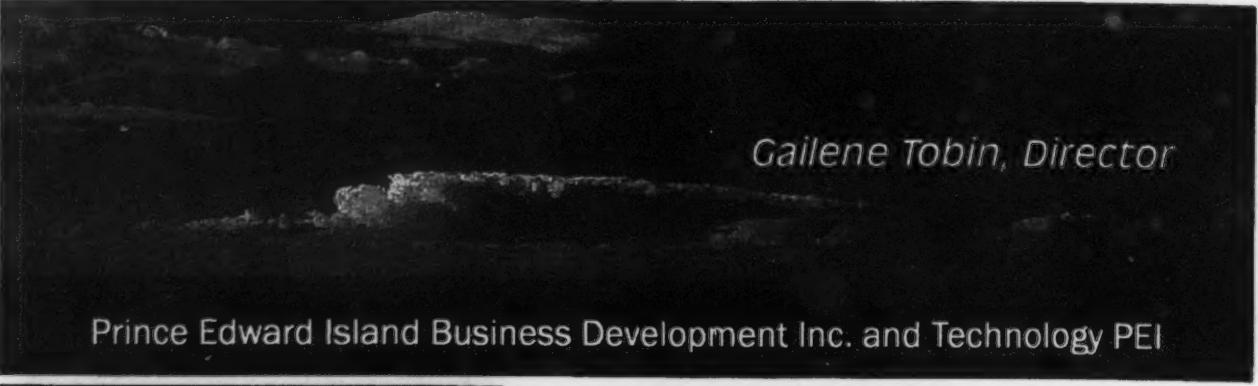
This new initiative is designed to support all levels of research and development in the province and will consist of an Institutional Research Fund, a Human Resources Research Fund, a Product Development Fund and a Technical Development Fund.

Our main goal this year was to launch the R and D

Initiative, complete one round of funding and call for a second round of proposals. An announcement of the first round of funding for this initiative involved 10 projects being approved with total funding of \$685,595.

Projects that received funding include:

- Atlantech Engineering
- Atlantic Swine Research Partnership
- Centre for Aquatic Health Sciences
- Canadian Bovine Mastitis Research (UPEI)
- ViroTechnologies Inc.
- Dr. Laurie McDuffee (Atlantic Veterinary College)
- Progressive Bioactives Inc.
- Dr. Cai Song (UPEI)
- Atlantic Network for BioActive Compounds (UPEI)
- Dr. Chris Riley (UPEI)



Gailene Tobin, Director

Prince Edward Island Business Development Inc. and Technology PEI

Special Projects

- Seven speaker sessions were coordinated in the BioScience Networking Speaker Series.
- First annual Sanofi-Aventis Biotech Challenge
Province-wide high school student biotech challenge
- Launched Life Sciences Directory Update
- Hosted two industry training sessions:
 - *Introduction to BioScience*
 - *Patent Protection*
- Supported the formation of the PEI BioAlliance to enhance PEI's BioScience Cluster



Over the past year, we have supported other divisions, including Business Investment and Client Services by providing \$293,140 in funding for programs related to Bioscience.

In the coming year, PEI Business Development will transition all Bioscience activities to this Division. This will include local growth and expansion, as well as prospecting.

Conferences attended by this division included:

- Bio Contact
- Canada/US Best Practices in Tech. Licensing
- Bio North
- Bio Port, Atlantic
- US Science & Tech Officers Meeting
- Atlantic Research Money Conference
- BIO 2006 International

Business Investment Division

Prince Edward Island Business Development Inc. and Technology PEI

The role of the Business Investment Division is to attract outside investment to establish business operations in Prince Edward Island.

In 2005-2006, the Division established and exceeded very defined goals in generating business leads, attracting new investment and creating employment opportunities in the sectors of Aerospace, Food Processing, Bio-science, Manufacturing and Information Technology.

Each of the priority sectors in Prince Edward Island have core competencies that provide competitive advantages and clear focus areas. The Business Investment Division has also identified financial services / shared services as a priority sector for attracting investments to the Province.

Prince Edward Island has many advantages to attract companies in the Financial Services sector which include a skilled labour force and existing infrastructure. Prince Edward Island is also the lowest cost business location in the G8 according to KPMG. The Division completed six projects, which resulted in the creation of more than 200 new positions. A few examples include the following:

Food Processing

Snairs - 20 positions

Snairs brings to Prince Edward Island a long tradition of excellence and quality in the baking industry. The company is supplying commercial and retail customers throughout Atlantic Canada from its facility in Borden-Carleton. Snairs will greatly broaden the food processing industry in Prince Edward Island.

Information Technology

Bight Interactive - 10 positions

Bight Interactive is an innovative mobile video gaming company specializing in 2D and 3D technology and content development. Bight has developed a portfolio of compelling mobile content for operators around the world.

Backbone / Foundation 9 - 33 positions

Foundation 9 is one of North America's leading independent video game development companies. The Charlottetown studio joins development centres in Emeryville, CA, Boston, MA, and Vancouver, BC, that will develop games for all major publishers.

CGI - 150 positions

CGI is one of Canada's leading Information Technology companies. The company will undertake software development and application maintenance in Prince Edward Island. CGI was attracted to Prince Edward Island by the quality of the Information Technology labour supply and the superior business environment.



Brad Mix, Director

Prince Edward Island Business Development Inc. and Technology PEI

The Marketing Division has also assisted in increasing the awareness of PEI as an investment location. Through an investment promotion group made up of all three levels of government called InvestPEI, several initiatives were undertaken including a new aerospace brochure, revised investment web site, and revised CD Rom.

In 2006-2007, the Business Investment Division will focus on creating new investment opportunities for Prince Edward Island. The Division is participating in a number of investment attraction activities and is poised to complete a number of projects in all sectors.



Asset Management Division

Doug McNeil, Director

Prince Edward Island Business Development Inc. and Technology PEI

The Asset Management Division administers and develops real property investment assets owned by Prince Edward Island Business Development Inc. In addition, the Division provides technical service to the Ministry of Development and Technology which has included the construction of a water and waste treatment plant for the Albany Beef Plant in Borden / Carlton, expansion of the Food Technology Centre and construction of the Atlantic Technology Centre.

The property portfolio includes mature business parks at West Royalty, Summerside, Bloomfield, Poole's Corner, Gateway Village and the Souris Food Park as well as the Food Technology Centre and the Atlantic Technology Centre.

Gateway Village Development Inc. (GVDI) owns and operates Gateway Centre, a 20,000-square-foot complex, plus the Shops of Gateway, a 10,000-square-foot shopping mall. The complex offers space for a museum, exhibits, visitor information as well as retail and administrative offices. These properties are currently for sale and negotiations are under way with a perspective buyer.

Environmental Industrial Services Inc. (EISI) is also managed by the Asset Management Division. EISI owns and operates water and/or wastewater utilities at Bloomfield, Alberton, Northport, Albany, Georgetown, Mill River, Crowbush Resort and Brudenell Resort.

Highlights

- Assets include more than 300,000 square feet of building space and several hundred acres of land.
- Divestiture process continues with the sale of properties.
- Preliminary planning is underway for a new Bio Park.
- Options under review for additional corporate space required for new companies.

Atlantic Technology Centre

Prince Edward Island Business Development Inc. and Technology PEI

Atlantic Technology Centre (ATC) is equipped with the latest conveniences and technologies necessary for full connectivity for prosperous businesses. The facility provides an environment for growing IT and Media companies to expand, develop new partnerships and exist in a facility designed to promote development and growth.

ATC is 90 percent occupied with an on-site corporate office which acts as landlord to approximately 20 companies that employ more than 300 people. Companies residing in ATC reflect industry representation in production, e-learning, health services, gaming, animation, interactive content development, advanced technical training, post production, video gaming and computer programming.

Over the next two years, management at ATC plan to take the facility and its tenants to the next level by exploring opportunities to export products in the international marketplace.

Year in Review

Atlantic Technology Centre signed a lease agreement with NewCap Broadcasting Company, owners of 720 CHTN radio station. 720 CHTN now showcases a state-of-the-art radio station on ATC's ground floor on the corner of Fitzroy St. and University Ave. 720 CHTN's offices are located on the 3rd floor of ATC with the ground floor booth hosting live broadcasts from 6:00 a.m. - 6:00 p.m. This arrangement is showcasing the face of radio for Islanders.

An upgrade to ATC's Data Centre has recently been completed to prepare the facility for future growth. Implementation of a cable management system and the new addition of a power grid under the floor allow for quick and effective client installation, upgrades

and client system management. The addition of two redundant 10 ton air conditioners provides adequate air conditioning for present and future demand at the facility.



The New Media field also continued to grow at ATC. Recent tenant additions of Eight Interactive and Telos are examples of an emerging gaming field. Trapeze Animation has also expanded and continued to drive forward with work in animation and motion capture. With respect to the communications industry, ATC redeveloped a portion of the ground floor to offer Rogers Communication a retail outlet in downtown Charlottetown. This contributed to the ever-changing facade of ATC.

Succeeding in the 21st Century

An increase in events exposed the business community to various technologies available at ATC. The facility can help businesses reach their goals in real time, without ever leaving Prince Edward Island.

Press conferences for WestJet, national employee video conferencing orientations, and even virtual trade missions to Mexico have contributed to the shared/increased knowledge of technologies that are available at ATC.

Atlantic Technology Centre

Prince Edward Island Business Development Inc. and Technology PEI

Highlights

- Leased space at 90 percent;
- 300 people employed at 22 different companies
- AML Rogers established retail outlet on ATC's Ground Floor
- NewCap radio station established a broadcast studio on the ground floor
- Continued to host local, regional and international conferences, interviews and trade sessions

Atlantic Technology Centre's (ATC) forward-thinkers designed amenities and an advanced communication network to allow companies to produce and distribute next generation services and applications. The leading edge infrastructure provides companies with smart office space, advanced meeting and conference areas and advanced media production facilities that created an atmosphere for companies to prosper in business.

During the 2005 year, ATC reached a 90 percent occupancy rate. The facility operates with an on-site corporate office which is located on the ground floor for ease of access to 22 companies working with-in the New Media and IT industries.

These companies employ more than 350 people within the building and offers employment opportunities are available in the production, e-learning, health services, gaming, animation, interactive

content development, advanced technical training, post production, video gaming and computer programming.

ATC has seen the growth of companies within the building including the addition of ground floor service providers.

Best Western Charlottetown (Chip Hospitality) operates a food/beverage establishment for tenants and guests to the building while AML Communications, an authorized dealer for Rogers Wireless opened a retail outlet and business service centre for Rogers Wireless products.

CHTN, owned by NewCap Inc., opened their new office on the third floor of ATC in conjunction with launching a state of the art broadcast booth located on the Ground Floor, at the corner of University and Fitzroy.

The state-of-the-art broadcast booth allows people to watch radio announcers while working live on the air.

ATC's Community Access Program (CAP) site welcomed its 10,000th visitor on June 7, 2005. To mark this milestone, ATC CAP site hosted an open house and invited the public to drop in and explore services offered by the CAP site. Such services include internet access, training, classes and seasonal kids camps.

A CAP site has been in operation at ATC since September 2004. Free internet access is available at 6 computer terminals as well as a computer training lab consisting of eight computers. The site, located on the Lower Level, offers training, group bookings and word processing applications.



Food Technology Centre

Prince Edward Island Business Development Inc. and Technology PEI

The Food Technology Centre (FTC) provides innovation for food and bioresource processors. Project contracts or service contracts for industry make up all of the work accomplished at the Centre. The Centre completed 44 project contracts in fiscal year 2005-2006. There were 32 signed project contracts in progress at the end of the fiscal year and 47 project contracts proposed or developing at year-end. These project contracts and service contracts earned \$1,345,403 in revenue to supplement the operating grant provided by the Province of Prince Edward Island.

The FTC has completed the start-up phase of the Atlantic Innovation Fund project on Natural Products Extraction Technology. The expansion, equipment and staffing phase of the project have been completed. A number of sub-projects for companies like Ocean Nutrition Canada (ONC) and Bio-Exx have been completed and others are being signed. Over a five year period, this project will receive \$4.9 million from ACOA. Expertise is being developed through this project and private sector clients will benefit from practical technologies being transferred to them during the course of the project.

The Centre provides short course practical training to industry. Seven courses have been delivered over the past year. These courses are usually one to three days in duration and deal with food safety and sanitation. FTC received Safe Quality Food (Washington, DC) recognition for its HACCP course this year.

The FTC has signed a funding agreement with Canadian Dairy Commission (CDC) which allows food processors who use milk ingredients to access two new funding programs. The programs will give processors an opportunity for consultation and development work at the FTC. On January 31, 2006,

the Food Technology Centre hosted a seminar on the use of dairy ingredients in partnership with the Canadian Dairy Commission. The seminar was well attended, with a total of 50 participants from many different organizations from the Atlantic Region. Speakers included Mark Lalonde (Chief of Marketing Programs, Canadian Dairy Commission), Selwyn Joseph (Senior Food Scientist, Highliner Foods), Kevin Flanagan (Research and Development Director, McCain Foods), Helen Bishop MacDonald (President, Nutrisphere) and Jim Smith (Executive Director, PEI Food Technology Centre).

In order to promote the activities of the FTC, staff developed a monthly e-newsletter to distribute to about 1,200 clients, key contacts as well as to selected government contacts. Feedback on this marketing tool is very positive.

A recent case study from the newsletter illustrates the type of work done at the centre:

There is an increasing number of people with low tolerance for foods containing gluten. Following a strict gluten-free diet is their best option to avoid gluten intolerance-related complications. Celiac Disease is a permanent intolerance to gluten that results in damage to the small intestine.

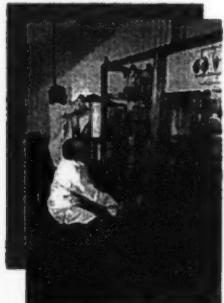
The Canadian Celiac Association estimates that one in 200 Canadians suffer from gluten intolerance to some extent. Gluten is the protein found in certain flours such as wheat, rye and barley and it provides the viscoelastic characteristics to bread dough.

Dr. Jim Smith, Executive Director

Prince Edward Island Business Development Inc. and Technology PEI

Brenda and Wayne Vanduinkerken of Duinkerken Foods, West Royalty Industrial Park, Charlottetown, realized a lack of certain gluten-free products on the market that met their preferences for high quality and delicious taste and decided to develop brand new gluten-free bakery products.

Duinkerken Foods approached the Food Technology Centre for assistance in developing their ideas into commercially-viable formulations for their new food products.



With inputs from Duinkerken Foods on their requirements for product quality and sensory attributes, the Food Technology Centre developed the required formulations for Duinkerken Foods to speed up their product-development process.

After further modifications to suit their preferences, Duinkerken Foods has successfully developed new gluten-free bakery products and they are now getting ready for large scale production of those products.

**For additional Information in new products, contact:
Duinkerken Foods**

Telephone: (902) 569-3604

Email: duinkerken.foods@pel.sympatico.ca

For Information on product development services available at FTC, contact:

Yaw Dako, Food Technologist

Telephone: (902) 569-7699

Email: yadako@gov.pe.ca

Highlights: 2005-2006

- All technical staff at FTC have received extensive training in sales over the past year. An eight-day course has lead to more effective interaction with clients and increased sales at FTC. In fact, FTC is entering Fiscal Year 2006-2007 with more signed project revenue committed than ever before.
- FTC project leaders participated in a three-day project management course. This provided essential skills to employees working on multiple projects for a number of clients and managing shared resources. The staff can deliver projects on-time and on-budget for FTC's clients.
- FTC is a registered ISO9000:2000 company, has Standards Council of Canada Accreditation, is a Registered Food Processing Plant with the Canadian Food Inspection Agency and is a Certified Organic Processor. FTC has completed audits by these certifying bodies during the last year.
- FTC has signed a Network Member Agreement with the National Research Council IRAP Program last year for \$30,000. This enables FTC to obtain revenue from IRAP to cover promotion of innovation and the services of the Centre.

**Prince Edward Island Business
Development Inc.**

**Consolidated Financial Statements
March 31, 2006**



ArsenaultBestCameronEllis
CHARTERED ACCOUNTANTS

A Member Firm of The AC Group of Independent Accounting Firms Limited

Chartered Accountants &
Business Advisors
Prince Edward Place
80 Water Street
PO Box 455
Charlottetown, Prince Edward Island
Canada C1A 7L1
Telephone (902) 368-3100
Fax (902) 566-5074
www.acgca.ca

May 18, 2006

Auditors' Report

To the Minister of Development and Technology

We have audited the consolidated balance sheet of **Prince Edward Island Business Development Inc.** as at March 31, 2006 and the consolidated statements of revenues and expenditures, retained earnings and cash flows for the year then ended. These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles, using differential reporting options available to non-publicly accountable enterprises, as described in note 2 to the financial statements. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

ArsenaultBestCameronEllis

Chartered Accountants

Prince Edward Island Business Development Inc.

Consolidated Balance Sheet As at March 31, 2006

	2006 \$	2005 \$
Assets		
Current assets		
Cash and short-term investments (note 3)	3,048,271	3,741,565
Accounts receivable (notes 4 and 20)	2,167,008	2,510,966
Accrued interest receivable	125,000	98,610
Grant receivable - ACOA	591,153	446,131
Inventory	57,098	55,695
Prepaid expenses	28,788	25,157
Current portion of loans receivable	8,295,050	3,434,447
Current portion of net investment in leases	7,290	7,290
	14,319,658	10,319,861
Due from the Province of Prince Edward Island (note 5)	8,944,843	5,535,038
Loans receivable, less current portion (note 6)	34,071,883	32,702,139
Investment in non-marketable securities (note 7)	2,754,009	2,936,622
Property holdings (note 8)	9,271,843	10,241,514
Property and equipment (notes 9 and 20)	28,860,769	30,207,874
Funds held in trust (notes 3, 10 and 20)	1,180,445	2,525,966
Net investment in lease, less current portion (note 11)	613,030	570,030
	100,016,480	95,039,044
Liabilities		
Current liabilities		
Bank advances	332,668	
Accounts payable and accrued liabilities (note 20)	16,358,139	11,721,353
Provision for payment of guarantees (note 17)	1,290,550	1,397,467
Deferred revenue	44,192	55,611
Deferred contributions	162,000	236,634
Progress billings in excess of work-in-progress	228,669	343,929
Short-term notes payable (note 12)	12,550,603	14,623,648
Current portion of notes payable and long-term debt	4,841,085	2,907,577
Current portion of obligation under capital lease	300,000	150,000
	36,107,906	31,436,219
Funds held in trust (notes 10 and 20)	1,180,445	2,525,966
Notes payable and long-term debt, less current portion (note 13)	47,515,880	44,694,370
Obligation under capital lease, less current portion (note 14)	360,000	660,000
Deferred credits (notes 15 and 20)	13,087,244	13,945,893
Reserve for future expenditures (note 16)	160,523	163,613
	98,411,998	93,426,061
Contingent liabilities (note 17)		
Equity		
Retained earnings	44,187	52,688
Contributed surplus (note 20)	1,560,295	1,560,295
	1,604,482	1,612,983
	100,016,480	95,039,044

Approved by the Board of Directors

Director

(2)

Director

Prince Edward Island Business Development Inc.
Consolidated Statement of Retained Earnings
For the year ended March 31, 2006

	2006 \$	2005 \$
Retained earnings - Beginning of year	52,688	58,287
Excess expenditures for the year	<u>(8,501)</u>	<u>(5,599)</u>
Retained earnings - End of year	44,187	52,688

(3)

Prince Edward Island Business Development Inc.

Consolidated Statement of Revenues and Expenditures

For the year ended March 31, 2006

	2006 \$	2005 \$
Revenue (note 20)		
Grant - Province of Prince Edward Island	23,982,600	21,849,500
Investment operations	52,262	59,874
Interest on loans receivable	2,705,962	2,397,409
Guarantee fees	102,565	129,007
Interest from deposits	28,534	20,227
Property operations	3,630,303	3,628,678
Miscellaneous	-	21,405
Project revenues	1,242,775	1,002,749
Retail operations (Schedule)	144,685	159,293
	<hr/> 31,889,686	<hr/> 29,268,142
Expenditures (note 20)		
Operating	6,408,745	7,148,202
Property operations	4,430,487	4,450,672
Development programs	13,729,561	12,585,854
Allowance for credit losses and guarantee payments (note 5)	3,320,000	1,250,000
Investment operations	1,901,539	1,216,602
Project costs	609,263	338,685
Retail operations (Schedule)	103,846	109,348
Writtenown of assets under capital lease	-	540,000
Amortization - property holdings, property and equipment and deferred costs	3,337,974	3,525,027
Amortization - deferred credits	(1,943,228)	(1,890,649)
	<hr/> 31,898,187	<hr/> 29,273,741
Excess expenditures for the year	<hr/> (8,501)	<hr/> (5,599)

(4)

Prince Edward Island Business Development Inc.
Consolidated Statement of Cash Flows
For the year ended March 31, 2006

	2006	2005
	\$	\$
Cash provided by (used in)		
Operating activities		
Excess expenditures for the year	(8,501)	(5,599)
Items not affecting cash		
Amortization - deferred credits	(1,943,228)	(1,890,649)
Amortization - property holdings and property and equipment	3,337,974	3,525,027
Amortization - net investment in lease	(43,000)	-
Discount to net present value of net investment in lease	-	430,000
Writtenown of assets under capital lease	-	540,000
Increase in due from the Province of Prince Edward Island - allowance for possible losses	(3,320,000)	(1,075,000)
	(1,976,755)	1,523,779
Net change in non-cash working capital items		
Decrease (increase) in accounts receivable - net	343,958	(599,536)
Decrease (increase) in accrued interest receivable	(26,390)	184,605
Decrease (increase) in grant receivable - ACOA	(145,022)	1,026,119
Increase in deposits on equipment	-	197,626
Decrease in deferred charges	-	3,582,473
Decrease in deferred contributions	(74,634)	(7,563)
Increase in prepaid expenses	(3,631)	(22,998)
Decrease (increase) in inventory	(1,403)	81,151
Increase (decrease) in accounts payable and accrued liabilities	4,636,786	(8,563,156)
Decrease in provision for payment of guarantees	(106,917)	(100,000)
Increase (decrease) in deferred revenue	(11,419)	17,371
Decrease (increase) in progress billings in excess of work-in-progress	(115,260)	293,232
	2,519,313	(2,386,897)
Financing activities		
Decrease (increase) in due from Province of P.E.I. - current operations	(89,805)	141,463
Increase in deferred credits - net	1,084,579	636,458
Net change in funds held in trust	(1,345,521)	(483,293)
Increase (decrease) in short-term notes payable	(2,073,045)	879,732
Increase in notes payable and long-term debt (net)	4,755,018	13,313,685
Decrease in obligation under capital lease	(150,000)	(70,000)
Increase (decrease) in reserve for future expenditures	(3,090)	163,613
	2,178,136	14,581,658
Investing activities		
Purchase of property and equipment - net	(1,199,481)	(1,938,866)
Additions to and purchases of property holdings	-	(93,133)
Reductions of and proceeds on disposal of property holdings	178,284	404,300
Decrease in investment in non-marketable securities	182,612	268,881
Increase in loans receivable (net)	(6,230,347)	(8,773,962)
	(7,068,932)	(10,132,780)
Increase (decrease) in net cash and short-term investments and funds held in trust	(2,371,483)	2,061,981
Net cash and short-term investments and funds held in trust - Beginning of year	6,267,531	4,205,550
Net cash and short-term investments and funds held in trust - End of year	3,896,048	6,267,531
Net cash and short-term investments and funds held in trust consists of:		
Cash and short-term investments	3,048,271	3,741,565
Funds held in trust	1,180,445	2,525,966
Bank advances	(332,668)	-
	3,896,048	6,267,531
Supplementary disclosure		
Interest and dividends received	2,744,920	2,660,094
Interest paid	3,254,958	2,772,781

Prince Edward Island Business Development Inc.

Notes to Consolidated Financial Statements
March 31, 2006

1 Status of the corporation

Prince Edward Island Business Development Inc. is a Crown corporation incorporated under the Prince Edward Island Business Development Inc. Act (formerly Enterprise P.E.I. Act). Its financial results are included in the public accounts of the Province of Prince Edward Island.

2 Summary of significant accounting policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

a) General

These consolidated financial statements include the accounts of the wholly-owned subsidiaries, F.T.C. Enterprises Limited, Environmental Industrial Services Inc., Corporate Services Ltd., Gateway Village Development Inc., Atlantic Technology Centre Inc., Technology Prince Edward Island Inc. and 100417 P.E.I. Inc. all having March 31, 2006 year ends.

b) Differential reporting options

The company, with the unanimous consent of its shareholder, the Province of Prince Edward Island, has elected to prepare its financial statements in accordance with Canadian generally accepted accounting principles using the differential reporting options available to non-publicly accountable enterprises described below:

Investment subject to significant influence

The company has elected to use the cost method to account for its investment in Slementon Park Corporation. Slementon Park Corporation is subject to significant influence and would otherwise be accounted for using the equity method accounting. Details of the investment is as follows:

	2006	2005
	\$	\$
56,000 common shares of Slementon Park Corporation	1	1

The investment is included in investment in non-marketable securities as disclosed in note 7.

In addition, the company has applied the following significant accounting policies without reference to differential reporting.

c) Inventory

Inventory is valued at the lower of cost, determined on the first-in, first-out basis, and market, which is defined as net realizable value.

Prince Edward Island Business Development Inc.

Notes to Consolidated Financial Statements

March 31, 2006

d) Due from the Province of Prince Edward Island

i) Current operations

Operating grant – Province of Prince Edward Island is the balance due (to) from the Province for grants received that are less than (in excess of) expenditures incurred in the current year.

ii) Allowance for possible credit losses

The annual funded allowance for possible credit losses (expense or recovery) is recorded as an amount "Due from the Province of Prince Edward Island – Allowance for Possible Credit Losses". The "Due from the Province of Prince Edward Island – Allowance for Possible Credit Losses" is reduced when a write-off is recognized by both Prince Edward Island Business Development Inc. and the Province, with notes payable reduced correspondingly. The allowance for possible losses is also reduced by any payment received from the Province on the allowance for possible losses for guarantees. During the year, Prince Edward Island Business Development Inc. recorded an approved allowance and corresponding expense of \$3,320,000 (2005 - \$1,250,000).

e) Loans receivable

Working capital demand loans and craft loans are recorded at cost less an allowance for possible losses. These loans are due on demand and bear interest at rates ranging from 5.5% to 12% and are repayable within the next fiscal year.

Long-term loans are recorded at cost less an allowance for possible losses. These loans are issued at long-term interest rates and are repayable over various terms to a maximum of 15 years with interest rates ranging from 5.5% to 10%.

An impaired loan is a loan where in management's opinion there is no longer reasonable assurance as to the timely collection of the full amount of principal and interest.

f) Allowance for possible losses

An allowance for possible losses is maintained which is considered adequate to absorb all credit and investment related losses and off-balance sheet items including guarantees. The allowance is deducted from the applicable asset on the balance sheet, except for guarantees. The allowance for guarantees is included in accounts payable for Entrepreneurial Loan Program guarantees and as a provision for payment of loan guarantees on the balance sheet for the remaining guarantees allowance.

The allowance consists of specific and general provisions.

Specific provisions include the accumulated allowances for losses on particular assets required to reduce the book values to estimated realizable amounts. Specific provisions total \$5,591,512 (2005 - \$2,603,395). The accumulated allowances for losses on specific off-balance sheet items total \$1,458,634 (2005 - \$1,565,551). Of this total, \$168,084 (2005 - \$168,084) is included in accounts payable and accrued liabilities, and \$1,290,550 (2005 - \$1,397,467) is recorded as provision for payment of guarantees.

The company does not accrue interest on a loan receivable once a specific provision has been recorded against the loan.

Prince Edward Island Business Development Inc.

Notes to Consolidated Financial Statements
March 31, 2006

The corporation reviews its loans portfolio, investments and advances, leased property and property holdings and guarantees on an ongoing basis to assess whether an allowance or write-off is required.

A variety of methods are used to determine the amount expected to be recovered from investments in and advances to private companies and property holdings, including estimated future cash flows and the estimated fair value of the underlying security and value of any collateral security taken.

A general provision of \$1,354,139 (2005 - \$1,557,625) includes accumulated allowances for losses which are prudential in nature and cannot be specifically identified. The general provision is based on past performance of similar assets, the level of the specific provision, management's judgement, the economic climate and the maturity and financial strength of the investee.

g) Investment in non-marketable securities

Investment in and advances to private companies, except for three preferred share investments, not considered to be concessionary are recorded at one-half of cost. An expense of 50% is charged to development programs. The cost is reduced by any applicable allowance for possible losses. Any recovery exceeding the balance in share investment is taken into revenue when received.

The three investments in preferred shares of private companies that are not being carried at one-half of their cost are being carried at the lower of cost and estimated realizable value.

Investments under the Venture Capital Equity Program are recorded at cost less an allowance for possible losses.

Advances - Venture Capital Debt Program are recorded at cost, less an allowance for possible losses.

Equity investments are reviewed annually for potential declines in value and are written down or an allowance is recorded if a decline in value is considered evident. Write downs are included in development programs expense.

It is not practical within constraints of timeliness and cost to determine the fair value of the investment in private companies as these investments are in closely held private companies that have no organized financial market. The estimated realizable value of these investments and advances is based on expected future cash flows.

h) Property holdings, property and equipment and amortization

i) Property holdings

Property holdings are reported at the lower of cost, net of government grants, and estimated realizable value.

Prince Edward Island Business Development Inc.

Notes to Consolidated Financial Statements

March 31, 2006

Office furniture and equipment and computer equipment are fully expensed in the year of acquisition, except for F.T.C. Enterprises Limited and Atlantic Technology Centre Inc. which record these items as a capital asset at cost less accumulated amortization. The amount expensed during the year ended March 31, 2006 was \$35,931 (2005 – \$59,695). Land improvements and buildings in Prince Edward Island Business Development Inc. are amortized using the straight-line method at the rates of 10% and 4% respectively. Land improvements and equipment included in industrial sites are amortized using the straight-line method at the annual rates of 8% and 20% respectively. Buildings held for resale and industrial malls are amortized using the straight-line method at the annual rates of 7% and 4%. Proceeds on the sale of industrial sites are recorded as a reduction in the carrying value of the asset. The test cells are amortized using the straight-line method at the annual rate of 5%. Signage is amortized using the straight-line method at the annual rate of 20%.

ii) Amortization

Property and equipment are amortized using the straight-line method at annual rates ranging from 5% to 100% as indicated in note 9.

A full year's amortization is recorded in the year of acquisition.

iii) Estimated realizable value

Estimated realizable value for industrial sites is the expected proceeds on resale and for industrial malls it is the property tax assessed value.

Estimated realizable value for land, buildings and equipment held for resale under lease purchase options is its property tax assessed value.

Estimated realizable value for the test cell is the net cost to construct the asset supported by a payment under a long-term lease agreement.

The reduction from cost to estimated realizable value is recorded as a provision for possible losses.

i) Net investment in lease

The company's subsidiaries accumulate costs of constructing assets, that are to be classified as capital leases, as assets under capital lease, and the related grants are considered deferred credits until the lease term begins. When the lease term begins, the assets under capital lease and deferred credits will be removed from the balance sheet and a net investment in leases recorded. The net investment in leases represents the net present value of the minimum lease payments receivable over the term of the lease plus the purchase option.

j) Programs assistance payable

Provincially funded non-cost shared program assistance is expensed and included in accrued liabilities when approved and accepted. Federal-Provincial cost shared programs are expensed when the funds are disbursed. Infrastructure assistance requiring future performance criteria is expensed when the funds are disbursed. Certain infrastructure assistance approved and not disbursed at year end is recorded as deferred charges.

Prince Edward Island Business Development Inc.

Notes to Consolidated Financial Statements

March 31, 2006

The P.E.I. Food Products Development Fund is a provincially-funded research assistance program administered by F.T.C. Enterprises Limited. Grants under the program are included in income and a corresponding expense and accrued liability is recorded when the grant is received. The accrued liability is reduced when contributions are made to projects. There is \$531,701 (2005 - \$442,430) in unexpended assistance included in accrued liabilities at year-end. The company has committed funds to qualifying projects in the amount of \$138,858 for the 2007 fiscal year.

k) Federal programs and grants

Federal programs

Prince Edward Island Business Development Inc. administers programs on behalf of the Federal Government. Any difference between federal funding received and program expenditures is recorded as an accounts receivable or accounts payable. During the year, Prince Edward Island Business Development Inc. disbursed \$354,733 (2005 - \$433,105) under the programs. Included in accounts receivable is \$17,844 (2005 - \$52,258) due from the federal government relating to the 2006 programs.

Included in the development program expenditures is \$73,757 (2005 - \$277,776) in costs related to salary costs of Prince Edward Island Business Development Inc. employees who deliver and administer these programs. This cost recovery has been recorded as a reduction in Prince Edward Island Business Development Inc.'s operating expenditures.

l) Post retirement benefits

The company provides retirement benefits to certain employees provided that they have at least 10 years of continuous service, reached a minimum age of 55 years, and contributed to the Superannuation Fund for at least 5 years. The benefit is based on one week's pay per year of service to a maximum of 26 weeks.

The accrual for post retirement benefits at March 31, 2006 is \$141,125 (2005 - \$145,472).

m) Pension liability

Most of the Corporation's staff are members of the Province of Prince Edward Island pension plan. Pension obligations are liabilities of the Province and not the corporation and no liability for these costs has been accrued by the corporation at March 31, 2006.

n) Deferred credits

Prince Edward Island Business Development Inc. and its subsidiaries have adopted the policy that contributions received towards the acquisition of property and equipment will be recorded as deferred credits and amortized to earnings on the same basis as the related property and equipment are amortized.

o) Revenue recognition

Prince Edward Island Business Development Inc. subsidiaries follow the percentage-of-completion method of accounting for revenue and expenditures on project contracts. The percentage-of-completion method records the organization's revenue based on the expenditures incurred and work completed on each contract in progress as at the balance sheet date. Unearned revenue is recorded as deferred revenue.

Prince Edward Island Business Development Inc.

Notes to Consolidated Financial Statements

March 31, 2006

Work in progress in excess of progress billings is recorded at year end to appropriately recognize revenue under the percentage-of-completion basis of accounting when work in progress is in excess of actual billings generated. When progress billings are in excess of the related work in progress at year end the excess is recorded as progress billings in excess of work in progress.

In Atlantic Technology Centre Inc., long-term rental and common area revenue are recognized on a monthly basis in accordance with lesac agreements. Short-term rentals are recognized when the space has been provided to customers.

Revenue from product royalties is recorded as received.

p) Film and new media investments

Investments made under the film and new media equity investments program are recorded as an expense under program expenditures when approved and accepted by the client. Revenue received as a recovery of those investments based on a percentage of income or under royalty agreements is recorded as revenue in the period received.

q) Interest expense

Interest paid by Prince Edward Island Business Development Inc. and its subsidiaries are included in the expenditure category to which it relates. Included in expenses is interest expense for 2006 as follows:

	2006	2005
	\$	\$
Interest on short-term borrowings	431,823	336,011
Interest on long-term debt	<u>2,848,344</u>	<u>2,334,678</u>
	<u>3,280,167</u>	<u>2,670,689</u>

r) Management estimates

The presentation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reported period.

s) Estimated realizable value of financial instruments

Estimated realizable value (fair value) is subjective in nature requiring a variety of valuation techniques and assumptions. Some of the company's financial instruments, specifically notes receivable, investment in subsidiaries and net investment in leases, are not exchangeable and it is difficult, and often not practical, to determine their estimated realizable value. Where it is possible to estimate realizable value, the company assumes that it will not sell the assets or the liabilities, taking into account only changes in credit risk as credit risk is the main cause of change in the estimated realizable value of the company's financial instruments. Credit risk is defined as the risk that the note holder will fail to discharge an obligation in whole or in part resulting in a financial loss to this company.

Prince Edward Island Business Development Inc.

Notes to Consolidated Financial Statements
March 31, 2006

3 Market value of investments

Cash and short-term investments and funds held in trust of \$4,228,716 (2005 - \$6,267,531) consist of portfolio investments and cash having a quoted market value of \$4,229,559 (2005 - \$6,274,176). The majority of marketable securities have a fixed value and it is expected that most securities will be held until they mature.

4 Accounts receivable and inventory

The accounts receivable have been reduced by an allowance for possible losses of \$169,314 (2005 - \$29,742).

5 Due from the Province of Prince Edward Island

	2006	2005
	\$	\$
Current operations		
Operating grant - Province of Prince Edward Island	<u>876,726</u>	<u>280,600</u>
Allowance for possible losses		
Balance - beginning of year	5,254,438	4,179,438
Current year recovery	210,000	-
Current year's approved allowance for possible losses expense	3,320,000	1,250,000
Current year write-offs	(602,795)	-
Payment on provision for possible losses	<u>(113,526)</u>	<u>(175,000)</u>
	<u>8,068,117</u>	<u>5,254,438</u>
Balance - End of year	<u>8,944,843</u>	<u>5,535,038</u>

Prince Edward Island Business Development Inc.
 Notes to Consolidated Financial Statements
March 31, 2006

6 Loans receivable

					2006	2005
	Impaired loans included in total	Allowance for possible losses	Allowance for possible losses			
	Total \$	\$	\$	General	Specific	Net \$
Working capital and craft loans	9,742,968	6,340,333	18,700	4,221,397	5,502,871	1,848,626
Long-term loans						
Shipbuilding/shipping	21,599,998	-	550,000	-	21,049,998	16,548,043
Manufacturing and processing	14,991,394	762,580	617,355	420,000	13,954,039	15,911,722
Tourism	112,894	40,000	-	25,000	87,894	20,000
Small business	2,012,470	1,709,400	-	425,000	1,587,470	1,661,175
Other	180,911	-	-	-	180,911	133,520
Technology	3,750	-	-	-	3,750	13,500
	38,901,417	2,511,980	1,167,355	870,000	36,864,062	34,287,960
Total Loans Receivable	48,644,385	8,852,313	1,186,055	5,091,397	42,366,933	36,136,586
Less: loans due within the next fiscal year	13,143,097	7,979,225	104,805	4,743,242	8,295,050	3,434,447
	35,501,288	873,088	1,081,250	348,155	34,071,883	32,702,139

Included in working capital loans is a demand note receivable of nil (2005 - \$5,500,000) due from Prince Edward Island Economic Development Fund (No. IV) Inc., a subsidiary of a provincial Crown corporation.

Prince Edward Island Business Development Inc.

Notes to Consolidated Financial Statements
March 31, 2006

7 Investment in non-marketable securities

	2006 \$	2005 \$
Investment in private companies		
Small Business and Venture Capital Equity Program investments	642,577	495,189
Less: Allowance for possible losses	<u>405,000</u>	<u>255,000</u>
	237,577	240,189
56,000 common shares of Slement Park Corporation at cost	1	1
Investment in preferred shares of private corporations	2,484,812	2,664,813
Net royalties receivable from private corporation	<u>31,619</u>	<u>31,619</u>
	<u>2,754,009</u>	<u>2,936,622</u>
Advances - Venture Capital Debt Program		
Advances to private companies - bearing interest at variable rates, repayable based on performance.	95,115	268,775
Less: Allowance for possible losses	<u>95,115</u>	<u>268,775</u>
	-	-
	<u>2,754,009</u>	<u>2,936,622</u>

Of the preferred shares in private corporations, \$50,000 are to be redeemed by the issuer at the rate of \$10,000 per year, with the first redemption to occur in the 2008 year.

The net royalties receivable are due to F.T.C. Enterprises Limited and are non-interest bearing and are to be recoverable in the amount of 1.25% of gross income received by the purchaser for the direct sales of the products sold or 12.5% of net licensing fees received by the purchaser for licensing agreements, with one-half of these royalties being payable to the original patent holders by F.T.C. Enterprises Limited under an assignment. During the year, F.T.C. Enterprises Limited received net royalties of nil (2005 - nil).

Prince Edward Island Business Development Inc.

Notes to Consolidated Financial Statements

March 31, 2006

8 Property holdings

			2006	2005
	Cost \$	Accumulated amortization \$	Net \$	Net \$
Land	981,500	-	981,500	981,500
Land improvements	44,765	22,382	22,383	26,859
Buildings	1,611,451	322,304	1,289,147	1,353,611
Land, buildings and equipment held for resale or under lease purchase options	2,464,860	1,141,503	1,323,357	1,461,353
Industrial sites	10,794,649	9,253,210	1,541,439	2,044,509
Industrial malls	2,806,046	2,806,046	-	-
Test cell	4,937,000	837,451	4,099,549	4,346,401
Signage	64,066	49,598	14,468	27,281
	23,704,337	14,432,494	9,271,843	10,241,514

Included in land, buildings and equipment held for resale or under lease purchase options is land of \$862,802 (2005 - \$901,086).

Included in industrial sites is land of \$263,360 (2005 - \$314,910)

(15)

Prince Edward Island Business Development Inc.

Notes to Consolidated Financial Statements

March 31, 2006

9 Property and equipment

				2006	2005
	Amortization rate %	Cost \$	Accumulated amortization \$	Net \$	Net \$
F.T.C. Enterprises Limited					
Buildings	5 - 25 SL	2,544,514	2,077,639	466,875	594,101
AIF Building		1,497,297	747,212	750,085	1,116,508
Pilot plant and laboratory equipment	10 - 25 SL	3,159,638	2,075,638	1,084,000	649,694
Computer and audio visual equipment	33 1/3 SL	492,812	482,946	9,866	26,824
Office furniture and equipment	20 SL	171,779	171,374	405	2,690
AIF equipment	25 SL	1,753,760	795,742	958,018	940,260
		9,619,800	6,350,551	3,269,249	3,330,077
Gateway Village Development Inc.					
Land		1	-	1	1
Building - Phase I	5 SL	3,095,313	1,367,097	1,728,216	1,882,982
- Phase II	5 SL	1,656,309	662,523	993,786	1,076,601
Land improvements					
- Phase I	10 SL	816,743	721,457	95,286	176,960
- Phase II	10 SL	357,244	285,183	72,061	107,786
Interpretative Centre	20 SL	1,078,080	1,078,080	-	-
Retail fixtures - Phase I	20 SL	77,466	77,466	-	-
Phase II	20 SL	95,970	95,970	-	-
Signage	20 SL	12,798	12,798	-	-
		7,189,924	4,300,574	2,889,350	3,244,330
Environmental Industrial Services Inc.					
Bloomfield Mall					
Land improvements	10 SL	142,328	49,815	92,513	106,746
Building	4 SL	1,823,975	255,357	1,568,618	1,641,577
Waste treatment facility	3.33 SL	293,493	32,106	261,387	271,170
Truck	33 1/3 SL	25,350	16,887	8,463	17,941
		2,285,146	354,165	1,930,981	2,037,434
Property for development - land		929,085	-	929,085	929,085
Soft costs		86,307	-	86,307	86,307
		3,300,538	354,165	2,946,373	3,052,826
Atlantic Technology Centre Inc.					
Property and equipment					
Land		2,391,916	-	2,391,916	2,391,916
Land improvements	10 SL	67,000	23,443	43,557	50,254
Building	2.5 SL	18,872,238	1,646,418	17,225,820	17,697,624
Furniture and fixtures	20 SL	313,273	218,769	94,504	157,161
Computer hardware	33 1/3 SL	1,474,155	1,474,155	-	283,686
Computer software	100 SL	61,600	61,600	-	-
		23,180,182	3,424,385	19,755,797	20,580,641
		43,290,444	14,429,675	28,860,769	30,207,874

SL = Straight line

Prince Edward Island Business Development Inc.

Notes to Consolidated Financial Statements

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10 Funds held in trust

Under the terms of an agreement between Corporate Services Ltd., Prince Edward Island Government Economic Development Fund (No. IV) Inc., (Island Fund IV), and Prince Edward Island Government Economic Development Fund (No. V) Inc., (Island Fund V), Corporate Services Ltd. is to act as the Escrow Agent for investors of a \$30,000,000 venture capital fund offering for each of the funds.

Corporate Services Ltd. receives the subscription forms from potential investors and holds the funds in trust until the commencement date. The commencement date is to be established within 100 days of receipt of twelve subscriptions. On the commencement date, the Escrow Agent shall:

- Advance to Island Fund IV or Island Fund V
- 70% of subscription proceeds to be reinvested; and
- 10% of subscription proceeds to be used to cover offering and operating costs;

Interest earned on the account while the funds are in escrow is the property of the specific fund.

- Establish a repayment account to retain on deposit the remaining 20% of the subscription proceeds to be invested in liquid, low-risk investment account, for the purpose of refunding rejected investors. Interest earned on the repayment account accrue to the benefit of the specific project, Island Investment Development Inc., or Island Fund IV or V as applicable, and not Corporate Services Ltd.

Funds held in trust consist of the following

	2006	2005
	\$	\$
Funds held in trust - principal	30,294	29,521
Repayment accounts	<u>1,150,151</u>	<u>2,496,445</u>
	<u>1,180,445</u>	<u>2,525,966</u>

11 Net investment in leases

The net investment in leases represents the minimum lease payments receivable over the term of the lease plus purchase options receivable recorded at net present value. The net investment in leases consists of the following:

Environmental Industrial Services Inc.

Environmental Industrial Services Inc. has entered into agreements to lease three properties on terms that require these leases to be accounted for as capital leases. In accounting for the capital leases, the property and equipment and related deferred credits have been removed and the lease payments receivable recorded as net investment in leases. The net investment in leases consists of the following:

- McCain Foods Limited – 10-year lease expiring December 2010, with the lessee paying all operating costs, an annual lease payment of nil and a purchase option of \$20.
- Cavendish Farms – 8-year lease expiring December 2011, with the lessee paying all operating costs, an annual lease payment of nil and a purchase option of \$10.

Prince Edward Island Business Development Inc.

Notes to Consolidated Financial Statements
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Both leases are renewable for an additional 10 years at the expiration of the original lease term at the option of the lessee.

- Small Fry Snack Foods Inc. – 9-year lease term expiring December 2005, with the lessee paying all operating costs, an annual lease payment of nil and a purchase option of \$7,260.

	2006 \$	2005 \$
Total minimum lease payments	7,290	7,290
Less: current portion	<u>(7,290)</u>	<u>(7,290)</u>
	-	-

Prince Edward Island Business Development Inc.

The net investment in lease represents the purchase option receivable from the lessee, due July 1, 2015.

The net investment in lease is recorded at the net present value of the total lease payments using a discount rate of 5.5%, calculated as follows:

	2006 \$	2005 \$
Total of lease payments to be received to July 1, 2015	1,000,030	1,000,030
Less: Discount to net present value at 5.5%	<u>(387,000)</u>	<u>(430,000)</u>
Net present value of net investment in lease	<u>613,030</u>	<u>570,030</u>

12 Short-term notes payable

	2006 \$	2005 \$
Demand note payable to Prince Edward Island Century 2000 Fund Inc.	12,550,603	-
Promissory notes payable to the Province of Prince Edward Island, repaid during the year	-	14,623,648
	<u>12,550,603</u>	<u>14,623,648</u>

During the year, the company entered into an agreement with Prince Edward Island Century 2000 Fund Inc., a subsidiary of a provincial Crown corporation, to obtain a \$15,000,000 revolving line of credit. The balance of the line of credit at March 31, 2006 is \$12,550,603 (2005 - nil). Interest is charged monthly at a rate equal to the Department of Provincial Treasury of Prince Edward Island's short-term lending rate and the total amount is repayable on demand.

The demand note is secured by a promissory note for \$15,000,000 and a revolving credit agreement.

Prince Edward Island Business Development Inc.
 Notes to Consolidated Financial Statements
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13 Notes payable and long-term debt

	2006 \$	2005 \$
6.60% note payable, repayable \$893,465 annually including principal and interest, maturing March 31, 2012	3,779,557	4,883,027
4.00% promissory note payable, due March 1, 2015 with interest to be paid quarterly and principal due at maturity	6,600,000	-
5.33% note payable, interest payments only commencing November 1, 2004 and payable until February 2010, principal payments commence February 1, 2010 with one payment of \$85,714 followed by 55 monthly principal payments of \$257,143, three monthly principal payments of \$171,429 and three monthly principal payments of \$85,714 plus interest, maturing March 1, 2015	15,000,000	15,000,000
4.00% promissory note, due December 31, 2008 with interest to be paid quarterly and principal payments due each November 30 and December 31 starting in 2005 of \$1,000,000 and \$250,000 respectively, and the balance due at maturity	13,750,000	7,186,000
4.00% promissory note, due April 1, 2008, repayable in annual principal instalments of \$288,375 commencing April 1, 2005	576,750	865,125
6.62% Bank of Nova Scotia mortgage, repayable \$40,333 monthly plus interest, maturing August 30, 2017	10,365,667	10,849,667
5.65% Bank of Nova Scotia loan, repayable \$18,106 monthly including principal and interest, maturing March 20, 2007	2,284,991	2,370,522
ACOA non-interest bearing loan, repaid during the year	-	180,000
5.84% note payable, repaid during the year	-	478,606
4.40% note payable, repaid during the year	-	5,789,000
	<hr/> 52,356,965	<hr/> 47,601,947
Less: Current portion	<hr/> 4,841,085	<hr/> 2,907,577
	<hr/> 47,515,880	<hr/> 44,694,370

The 6.60% and 5.33% notes payable are issued to the Province of Prince Edward Island.

The 4% promissory notes are payable to Prince Edward Island Century Fund 2000 Inc., a subsidiary of a provincial Crown corporation.

The notes payable and long-term debt are unsecured, except for the 6.62% Bank of Nova Scotia mortgage, which is secured by a full guarantee provided by the Province of Prince Edward Island.

The entire balance of the 5.65% Bank of Nova Scotia loan maturing in the coming fiscal year is classified as current.

Prince Edward Island Business Development Inc.
Notes to Consolidated Financial Statements
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The aggregate amount of principal payments required in each of the next five years to meet retirement provisions is as follows:

	\$
Year ending March 31, 2007	4,841,085
2008	2,591,319
2009	18,940,495
2010	1,473,380
2011	4,258,910

14 Obligation under capital lease

Atlantic Technology Centre Inc.

The following is an analysis of the future minimum lease payments on a capital lease. The lease expires October 2007.

	2006	2005
	\$	\$
4% lease, payable in annual instalments \$105,200 in 2004, \$182,400 in 2005, \$326,400 in 2006 and \$374,400 in 2007, payable on October 31 of each year	700,800	883,200
Less: Amount representing interest	<u>40,800</u>	<u>73,200</u>
	660,000	810,000
Less: current portion	<u>300,000</u>	<u>150,000</u>
	<u>360,000</u>	<u>660,000</u>

The total annual principal payments over the remaining term of the lease are as follows:

	\$
Year ending March 31, 2007	300,000
2008	360,000

Prince Edward Island Business Development Inc.

Notes to Consolidated Financial Statements

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15 Deferred credits

			2006	2005
	Cost \$	Accumulated amortization \$	Net \$	Net \$
F.T.C. Enterprises Limited				
Buildings	5,868,552	3,840,516	2,028,036	974,217
Pilot plant and laboratory equipment	1,256,292	641,907	614,385	1,510,218
Computer and audio visual equipment	-	-	-	41,799
Office furniture and equipment	-	-	-	316
	7,124,844	4,482,423	2,642,421	2,526,550
Gateway Village Development Inc.				
Building - Phase I	3,095,313	1,367,094	1,728,219	1,882,982
Land improvements	816,743	721,460	95,283	176,960
Interpretative Centre	1,072,001	1,072,001	-	-
Retail fixtures	73,735	73,735	-	-
	5,057,792	3,234,290	1,823,502	2,059,942
Environmental Industrial Services Inc.				
Bloomfield Mall	879,812	153,062	726,750	770,486
Atlantic Technology Centre Inc.				
Building	6,861,000	581,916	6,279,084	6,296,856
Computer hardware	1,424,927	1,424,927	-	250,847
Computer software	50,800	50,800	-	-
Furniture and fixtures	313,273	218,764	94,509	157,162
	8,650,000	2,276,407	6,373,593	6,704,865
Prince Edward Island Business Development Inc.				
Industrial sites	7,836,092	6,315,114	1,520,978	1,884,050
	29,548,540	16,461,296	13,087,244	13,945,893

16 Reserve for future expenditure

During the 2005 fiscal year, Environmental Industrial Services Inc. took over certain liabilities from the Department of Environment, Energy and Forestry. The Corporation received an amount of \$173,471 in capital replacement funds which have been recorded as a reserve for future expenditures.

During the year, \$3,090 (2005 - \$9,858) was expended from the reserve.

Prince Edward Island Business Development Inc.

Notes to Consolidated Financial Statements

March 31, 2006

17 Contingent liabilities

a) The corporation is contingently liable under loan guarantees at March 31 as follows:

	2006	2005
	\$	\$
Loan guarantees	<u>8,304,786</u>	<u>10,695,437</u>
Provision for possible payment	<u>1,290,550</u>	<u>1,397,467</u>

The provision for possible payment for the loan guarantees is included in the overall allowance for possible losses.

The corporation is also contingently liable under entrepreneur loan program guarantees of \$1,120,417 (2005 - \$1,326,618) for which a provision for possible losses of \$168,084 (2005 - \$168,084) has been included in accounts payable and accrued liabilities.

Included in loan guarantees is \$495,000 (2005 - \$495,000) for an equity investment and \$1,498,587 (2005 - \$1,870,000) in guarantees for line of credit balances which have a carrying value of \$1,228,587 (2005 - \$1,300,000) at March 31, 2006. Also included is \$6,301,284 (2005 - \$8,330,437) in guarantees for term loans which have a carrying value of \$6,301,284 (2005 - \$8,278,778) at March 31, 2006. The above guarantees have various expiry dates ranging from April 2006 to May 2023.

The guarantees are secured by various assets and proceeds from liquidation are expected to cover the net carrying amount of the guarantees.

Related party amounts

Included in loan guarantees is a guarantee of a term loan in the amount of \$200,000 (2005 - \$200,000) provided to a Crown corporation, P.E.I. Energy Corporation, and a guarantee of a preferred share investment in the amount of \$495,000 (2005 - \$495,000) provided to a Crown corporation, PEI Lending Agency and a guarantee of a term loan in the amount of \$2,229,157 (2005 - \$2,354,162) provided to Slement Park Corporation, which is controlled by a wholly-owned subsidiary of Prince Edward Island Business Development Inc.

b) Prince Edward Island Business Development Inc. (the "company") has indemnified lease payments to a landlord on behalf of a private company (the "tenant"). In the case of default by the tenant, the maximum amount indemnified is \$108,333 per month, pursuant to the lease ending February 2025. The Company also has the option to acquire the premises from the landlord based on a predetermined calculation and have the lease assigned. Under this agreement, the option value at March 31, 2006 is \$13,393,231. If the Company opts to acquire the premises, the proceeds from the sale of the premises would be used to recover all or a portion of amounts paid under the guarantee; however, the value of the potential sale proceeds is not determinable at this time.

c) The company, along with other parties, has been named in a claim by a private company seeking general and aggravated damages and special damages in the amount of \$11,187,345, plus other unspecified damages and costs. It is management's opinion that a liability, if any, is unlikely and undeterminable at this time and no provision has been made in the accounts for future possible losses related to this claim.

Prince Edward Island Business Development Inc.

Notes to Consolidated Financial Statements
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d) Prince Edward Island Business Development Inc. has been named in an action filed by a private company seeking unspecified damages. Management believes this claim is completely without foundation and that the liability resulting from either of these claims, if any, is unlikely at this time and, accordingly, no provision has been recorded in the accounts for future possible losses.

18 Commitments

a) F.T.C. Enterprises Limited has entered into a twenty-five year lease expiring November 2013 with the University of Prince Edward Island for the land upon which the corporation constructed its facilities. The lease cost is \$1 per year and is renewable for a further term of twenty-five years for the same annual consideration.

b) The minimum annual lease payments required by Atlantic Technology Centre Inc. over the next two years under an operating lease for network management services and technological equipment expiring July 2007 are as follows:

	\$
Year ending March 31, 2007	120,000
2008	40,000

c) Loans approved by Prince Edward Island Business Development Inc. but not disbursed at March 31, 2006 total \$6,460,510.

19 Operating agreements

Environmental Industrial Services Inc. has agreements with McCain Foods Limited, Irving Pulp & Paper Limited and Small Fry Snack Foods Inc. to operate wastewater treatment facilities to extend to December 2010, 2011 and 2005, respectively, and stipulate that the companies shall pay Environmental Industrial Services Inc. a user fee equal to the operating costs of the facilities excluding interest and amortization charges. The companies pay these operating costs directly and accordingly a user fee has not been charged by Environmental Industrial Services Inc.

Environmental Industrial Services Inc. is responsible for operating the Brudenell and Crowbush Water and Sewer Utilities on behalf of the Province of Prince Edward Island. Environmental Industrial Services Inc. pays the operating costs of the Utility and recovers these costs from the users of the utility on a pro-rata basis based on usage.

During the year, the company recovered \$8,524 (2005 - \$7,976) in costs from related parties, Tourism PEI and Golf Links Prince Edward Island Inc. Tourism PEI is a provincial Crown corporation and Golf Links Prince Edward Island Inc. is a subsidiary of Tourism PEI.

20 Related party transactions

Balance sheet

Accounts receivable

Included in accounts receivable is \$307,337 (2005 - \$285,236) due from the Province of Prince Edward Island and \$239,737 (2005 - \$57,258) due from related companies.

Prince Edward Island Business Development Inc.

Notes to Consolidated Financial Statements

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Funds held in trust

The funds held in trust include amounts due to Island Investment Development Inc., a provincial Crown corporation and its subsidiaries as follows:

	2006	2005
	\$	\$
Advances from Island Investment Development Inc.	228,400	821,443
Advances from Island Fund IV	427,000	525,000
Advances from Island Fund V	494,749	1,150,000
 Net present value of net investment in lease	 1,150,149	 2,496,443

Property and equipment

The Province of P.E.I. transferred land to Gateway Village Development Inc. in 1997. In accordance with the terms of the transfer, the exchange and carrying amounts of the land was established as \$1.

The Province of Prince Edward Island conveys land to the company periodically to be used for development purposes. The exchange and carrying amounts of land when transferred into the company is nil.

Accounts payable

Included in accounts payable and accrued liabilities is \$715,240 (2005 - \$142,885) payable to the Province of Prince Edward Island, and \$261,250 (2005 - nil) due to related companies.

Deferred credits

During the year, F.T.C. Enterprises Limited received grants of \$596,500 (2005 - \$486,500) from the Province of Prince Edward Island through Prince Edward Island Business Development Inc. that have been accounted for as deferred credits and included in program expenditures for the year. These amounts have not been eliminated on consolidation.

Contributed surplus

Gateway Village Development Inc. and F.T.C. Enterprises Limited have received a cumulative total of \$1,786,248 in funds from the Province of Prince Edward Island through Prince Edward Island Business Development Inc. that have been accounted for as contributed surplus less \$225,953 transferred to offset deficit in prior years. This contribution has not been eliminated on consolidation.

Statement of revenue and expenditures

Revenue

Included in interest on loans receivable is nil (2005 - \$530,692) received from subsidiaries of a provincial Crown corporation.

Prince Edward Island Business Development Inc.

Notes to Consolidated Financial Statements

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Management fees

During the year, management fees of \$250,000 (2005 - \$150,000) were received from Island Investment Development Inc. and recorded as a reduction in operating expenditures.

Interest expense

Included in expenditures is \$1,426,954 (2005 - \$1,391,433) in interest paid to the Province of Prince Edward Island.

Included in expenditures is \$907,408 (2005 - \$344,033) in interest paid to a subsidiary of a provincial Crown corporation.

Other

During the year, Environmental Industrial Services Inc. received \$50,641 (2005 - nil) in costs from a related party, Prince Edward Island Department of Transportation.

The company provides office premises to Tourism PEI for nil consideration.

The company rents land for the annual amount of \$2,120 plus applicable taxes from Slement Park Corporation under a fifty-year lease agreement, effective for the term September 28, 2001 to September 28, 2051.

100417 P.E.I. Inc., a wholly-owned subsidiary of Prince Edward Island Business Development Inc., owns 56% of the common shares of Slement Park Corporation.

21 Transfer agreements with subsidiaries

Solanum - PEI, A Canadian Potato Systems Company Inc.

Effective October 11, 2005, Prince Edward Island Business Development Inc. entered into a general conveyance, assignment and assumption of liabilities agreement with a subsidiary, Solanum - PEI, A Canadian Potato Systems Company Inc. Under this agreement, Solanum - PEI, A Canadian Potato Systems Company Inc. transferred all of its assets and the benefit of all contracts to Prince Edward Island Business Development Inc. Prince Edward Island Business Development Inc. agreed to assume and discharge all liabilities of Solanum - PEI, A Canadian Potato Systems Company Inc., and to assume all expenses in connection with the wind-up and dissolution of Solanum - PEI, A Canadian Potato Systems Company Inc.

The net assets and liabilities transferred were as follows:

	\$
Cash	6,563
Accounts payable and accrued liabilities	1,500
Net profit to October 11, 2005	572
 Net assets transferred	 5,635

The net assets transferred were recorded by Prince Edward Island Business Development Inc. as an elimination of the investment in the amount of \$100 and increase in revenue of \$5,535.

Prince Edward Island Business Development Inc.

Notes to Consolidated Financial Statements

March 31, 2006

Technology Prince Edward Island Inc.

Effective April 1, 2005, Prince Edward Island Business Development Inc. assumed the delivery and financial reporting of technology, film and media assistance programs for ease of administration. Effective as of this date, all assets, staff and liabilities of Technology Prince Edward Island Inc. were transferred to Prince Edward Island Business Development Inc. and all financial obligations have become the responsibility of Prince Edward Island Business Development Inc.

The net assets and liabilities transferred were as follows:

	\$
Cash	170,827
Accounts receivable	2,713,564
Loans receivable	2,213,500
Prepaid expenses	3,063
Investment in subsidiary	100
Accounts payable and accrued liabilities	<u>5,099,426</u>
 Net assets transferred	 <u>1,628</u>

The net assets transferred were recorded by Prince Edward Island Business Development Inc. as a reduction of the intercompany receivable of Technology Prince Edward Island Inc. of \$1,628.

22 Comparative figures

Certain comparative figure presented for the 2005 fiscal year have been restated to conform with the financial statement presentation adopted in the current year.

Prince Edward Island Business Development Inc.
Notes to Consolidated Financial Statements
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23 Interest rate risk

The following table sets out assets and liabilities on the earlier of contractual maturity or repricing date. Use of the table to derive information about the company's interest rate risk position is limited by the fact that certain borrowers may choose to terminate their financial instruments at a date earlier than contractual maturity or repricing dates. For example, notes receivable are shown at contractual maturity but certain notes could prepay earlier.

	Under 1 year \$	Over 1 to 5 years \$	Over 5 years \$	Not interest rate sensitive \$	Total \$
Assets					
Cash and short-term investments	3,048,271	-	-	-	3,048,271
Accounts receivable	-	-	-	2,167,008	2,167,008
Accrued interest receivable	-	-	-	125,000	125,000
Grant receivable - ACOA	-	-	-	591,153	591,153
Inventory	-	-	-	57,098	57,098
Prepaid expenses	-	-	-	28,788	28,788
Loans receivable (net of allowance for losses)	13,143,097	26,875,402	8,625,886	(6,277,452)	42,366,933
Effective interest rate	7.69%	5.88%	6.03%		
Due from Province	-	-	-	8,944,843	8,944,843
Investment in non-marketable securities	130,000	520,000	500,000	1,604,009	2,754,009
Effective interest rate	4.00%	4.00%	4.00%		
Property holdings	-	-	-	9,271,843	9,271,843
Property and equipment	-	-	-	28,860,769	28,860,769
Funds held in trust	-	-	-	1,180,445	1,180,445
Net investment in leases	-	-	-	620,320	620,320
Total assets	16,321,368	27,395,402	9,125,886	47,173,824	100,016,480
Liabilities and surplus					
Demand loan	-	-	-	332,668	332,668
Accounts payable and accrued liabilities	-	-	-	16,358,139	16,358,139
Provision for payment of guarantees	-	-	-	1,290,550	1,290,550
Deferred revenue	-	-	-	44,192	44,192
Deferred contributions	-	-	-	162,000	162,000
Progress billing in excess of work-in-progress	-	-	-	228,669	228,669
Notes payable	17,391,688	27,264,104	20,251,776	-	64,907,568
Effective interest rate	5.27%	3.68%	5.33%		
Obligation under capital lease	300,000	360,000	-		660,000
Effective interest rate	4.00%	4.00%	-		
Funds held in trust	-	-	-	1,180,445	1,180,445
Deferred credits	-	-	-	13,087,244	13,087,244
Reserve for future expenditures	-	-	-	160,523	160,523
Contributed surplus	-	-	-	1,560,295	1,560,295
Retained earnings	-	-	-	44,187	44,187
Total liabilities and deficit	17,691,688	27,624,104	20,251,776	34,448,912	100,016,480
Interest rate sensitivity gap	(1,370,320)	(228,702)	(11,125,890)	12,724,912	-

Prince Edward Island Business Development Inc.

Schedule of Retail Operations
For the year ended March 31, 2006

	2006 \$	2005 \$
Revenue		
Island Store	303,074	336,634
Consignment sales - net	600	1,133
	<hr/>	<hr/>
	303,674	337,767
Cost of goods sold		
Island Store	158,989	178,474
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Gross margin	144,685	159,293
Expenditures		
Salaries and benefits	60,973	55,037
Occupancy charge	30,314	33,663
Bank charges and interest	4,458	4,719
Travel and training	98	1,000
Packaging	1,899	2,832
Advertising and promotion	873	5,856
Electricity	1,868	2,511
Telecommunications	1,568	2,145
Administration	1,175	1,200
Maintenance and cleaning	1,001	664
Product development	-	160
Exchange gain	(381)	(439)
	<hr/>	<hr/>
	103,846	109,348